
EAST-WEST UNIVERSITY'S ADMINISTRATION OF THE STUDENT FINANCIAL ASSISTANCE PROGRAMS

FINAL AUDIT REPORT



Audit Control Number 05-90009
May 1999

Our mission is to promote the efficient
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in support of American education



U.S. Department of Education
Office of Inspector General
Chicago, IL

NOTICE

Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by appropriate Department of Education officials. This report may be released to members of the press and general public under the Freedom of Information Act.

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May 18, 1999

MEMORANDUM

TO: Greg Woods
Chief Operating Officer
Office of Student Financial Assistance Programs

FROM: Richard J. Dowd
Regional Inspector General
for Audit - Region V

SUBJECT: FINAL AUDIT REPORT
East-West University, Chicago, Illinois
Administration of the Student Financial Assistance Programs
ED Audit Control Number A05-90009

Attached is the final audit report of East-West University's Administration of the Student Financial Assistance Programs. In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the resolution of the findings and recommendations in this report.

If you have any questions or wish to discuss the contents of this report, please contact me at 312-886-6503. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

May 18, 1999

Dr. M. Wasiullah Khan, Chancellor
East-West University
816 South Michigan Avenue
Chicago, Illinois 60605

Dear Dr. Khan:

Enclosed is our Final Audit Report entitled, "East-West University's Administration of the Student Financial Assistance Programs." If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Greg Woods, Chief Operating Officer
Office of Student Financial Assistance Programs
U.S. Department of Education
Regional Office Building, Room 4004
7th and D Streets, S.W.
Washington, D.C. 20202-5340

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 35 days would be greatly appreciated.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and the general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Regional Inspector General
for Audit - Region V

Attachment

Executive Summary

East-West University [University] generally administered the Title IV, Higher Education Act [HEA] programs in accordance with the regulations except for the items discussed below. Specifically, the University did not: (1) always liquidate credit balances or return overpayments; (2) award Federal Supplemental Educational Opportunity Grants [FSEOG] correctly; (3) document Federal Work Study [FWS] job titles and job descriptions or prohibit students from reporting hours worked during scheduled classes; and (4) disclose all fees assessed. The Office of Student Financial Assistance Programs [OSFAP] should instruct the University to: (1) liquidate credit balances and return overpayments and review all student ledger cards for additional credit balances and outstanding overpayments and refund any it identifies; (2) establish and implement policies and procedures to ensure it awards FSEOG in accordance with the regulations; (3) support that students worked in allowable jobs or refund \$40,582 to the U.S. Department of Education [ED], and establish and implement policies and procedures that document job titles and job descriptions, prohibit students from reporting work hours and class hours that are in conflict, and adequately separate duties; and (4) revise its refund policy to notify students of the administrative fee assessed when making a refund calculation. The University said it recognizes a need for more detailed written policies and procedures so it has started drafting an operating manual. It agreed with findings 1, 2, and 4 in total and with finding 3 in part. For finding 3, the University disagreed that it should refund all FWS wages. We have not changed the finding because the University did not provide specific support for the unsupported work.

The University Did Not Always Liquidate Credit Balances or Return Overpayments Applicable to Students Who Did Not Start Class

The University did not always liquidate credit balances or return overpayments when it disbursed funds to students who did not start class. The regulations require an institution to liquidate credit balances and return overpayments. For students in our sample, the University did not liquidate credit balances of \$768 or return overpayments of \$3,780 disbursed on behalf of “no-show” students. OSFAP should instruct the University to: (1) establish and implement written policies and procedures for liquidating credit balances and returning overpayments; (2) liquidate the outstanding credit balances and return to ED and the Illinois Student Assistance Commission [ISAC] overpayments disbursed on behalf of “no-show” students in our sample; (3) review all student ledger cards for credit balances and liquidate outstanding balances; and (4) review all student ledger cards for funds disbursed on behalf of “no-show” students and return any overpayments. An independent public accountant should attest to the University’s results for recommendations 3 and 4.

The University Did Not Always Award FSEOG Funds Correctly

Contrary to FSEOG regulations, the University did not give priority to students with the greatest need when awarding FSEOG. Instead, the University gave priority to students who appeared to be having trouble paying off their account balances or who indicated a need such as supporting other

FWS Students Had No Job Titles/Job Descriptions and Students Reported Work Hours That Conflicted With Scheduled Class Hours

family members. As a result, the University awarded FSEOG to students with Expected Family Contributions [EFCs] greater than zero, but did not award funds to all students with zero EFCs. OSFAP should instruct the University to establish and implement written policies and procedures for awarding FSEOG which comply with the regulations.

The University's FWS students had no job titles or job descriptions. Federal regulations restrict the type of work students can perform. Without a job title or job description it is impossible to determine if the work students are performing is allowable under FWS regulations. Also, we found FWS students' time sheets showed conflicts between reported work hours and scheduled class hours. The possible causes are the lack of written policies and procedures and inadequate separation of duties. OSFAP should instruct the University to: (1) provide support to show that the jobs were allowable or refund \$40,582; (2) establish and implement written policies and procedures that document job titles and job descriptions for FWS employees and prohibit students from reporting work hours that conflict with scheduled class hours, and (2) improve separation of duties.

The University's Refund Policy Did Not Disclose Administrative Fees

When students dropped out of school, the University often excluded a \$100 administrative fee when making the refund calculation. Federal regulations require an institution to provide a clear and conspicuous statement containing its refund policy. The University published a refund policy, but did not disclose the administrative fee. The University should revise its published refund policy to notify students that it would exclude an administrative fee when calculating refunds.

Audit Results

The University generally administered the Title IV, SFA programs in accordance with the regulations except for the items discussed below. Specifically, the University did not: (1) always liquidate credit balances or return overpayments; (2) award FSEOG correctly; (3) document FWS job titles and job descriptions or prohibit students from reporting hours worked during scheduled classes; and (4) disclose all fees assessed. OSFAP should instruct the University to: (1) liquidate credit balances and return overpayments and review all student ledger cards for additional credit balances and outstanding overpayments and refund any it identifies; (2) establish and implement policies and procedures to ensure it awards FSEOG in accordance with the regulations; (3) support that students worked in allowable jobs or refund \$40,582 to ED, and establish and implement policies and procedures that document job titles and job descriptions, and prohibit students from reporting work hours and class hours that are in conflict; and (4) revise its refund policy to notify students of the administrative fee assessed when making a refund calculation. The University said it recognizes a need for more detailed written policies and procedures so it has started drafting an operating manual. It agreed with findings 1, 2, and 4 in total and with finding 3 in part. For finding 3, the University disagreed that it should refund all FWS wages. We have not changed the finding because the University did not provide specific support for the unsupported work.

The University Did Not Always Liquidate Credit Balances or Return Overpayments Applicable to Students Who Did Not Start Class

The University did not always liquidate credit balances or return overpayments when it disbursed funds to students who did not start class. The regulations require an institution to liquidate credit balances and return overpayments. For students in our sample, the University did not liquidate credit balances of \$768 or return overpayments of \$3,780 disbursed on behalf of “no-show” students. The University should: (1) establish and implement written policies and procedures for liquidating credit balances and returning overpayments; (2) liquidate the outstanding credit balances and return to ED overpayments disbursed on behalf of “no-show” students in our sample; (3) review all student ledger cards for credit balances and liquidate outstanding balances; and (4) review all student ledger cards for funds disbursed on behalf of “no-show” students and return any overpayments. An independent public accountant should attest to the University’s results for recommendations 3 and 4.

An Institution Must Liquidate Credit Balances and Return Overpayments

According to 34 Code of Federal Regulations [CFR] 668.164 (e), whenever the total amount of all Title IV, Higher Education Act [HEA] program funds credited to a student’s account exceeds the amount of tuition and fees, room and board, and other authorized charges, the institution must pay the resulting credit balance directly to the student or parent no later than 14

days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period. Further, 34 CFR 668.21 provides that, if a student drops out before his or her first day of class, all funds paid to the student for that payment period must be returned to the respective Title IV, HEA program.

Credit Balances and Overpayments Remained on the University's Accounting Records

The University did not liquidate credit balances for students who dropped enrollment. From our sample of 100 students, we found 8 students had credit balances totaling \$768. At the time of our review, the credit balances still were unliquidated. Also, the University did not return \$900 of Federal Pell Grant [Pell] and \$2,880 of ISAC funds that it disbursed on behalf of "no-show" students. One of the credit balances and one of the overpayments have been on the University's books for over a year.

RECOMMENDATIONS

We recommend that OSFAP instruct the University to:

1. Establish and implement written policies and procedures for liquidating credit balances and returning overpayments;
2. Pay \$768 to students and return \$900 of Pell to ED;
3. Review all student ledger cards for credit balances and liquidate outstanding balances; and
4. Review all student ledger cards for funds disbursed on behalf of "no-show" students and return any overpayments.

We also suggest that the University return \$2,880 to ISAC. An independent certified public accounting firm should attest to the University's results for recommendations 3 and 4.

Auditee Comments

The University stated that it has liquidated 100 percent of student credit balances, made the recommended Pell refund, and refunded money to ISAC. In addition, to prevent unliquidated student credit balances in the future, the University is instituting a policy of (1) performing refund calculations and review within 30 days of the end of each quarter and (2) liquidating credit balances quarterly for students who drop.

The University Did Not Always Award FSEOG Funds Correctly

Contrary to FSEOG regulations, the University did not give priority to students with the greatest need when awarding FSEOG. Instead, the University gave priority to students who appeared to be having trouble paying off their account balances or who indicated a need such as supporting other family members. As a result, the University awarded FSEOG to students with EFCs greater than zero, but did not award funds to all students with zero EFCs. OSFAP should instruct the University to establish and implement written policies and procedures for awarding FSEOG which comply with the regulations.

Regulations Prescribe Priority Order for FSEOG Awards

According to 34 CFR 676.10(a)(1), when an institution is selecting among eligible students for FSEOG awards in each award year, the institution must select those students with the lowest expected family contributions who will also receive Pell in that year.

FSEOG Awards Did Not Comply With Regulations

The University awarded and disbursed FSEOG to 78 Pell recipients it believed had the greatest need. The Director of Financial Aid informed us she gave priority to students having difficulty paying account balances. However, this criterion resulted in awards that did not comply with the regulations. We found 33 of the 78 recipients had EFCs greater than zero, while 358 Pell recipients with EFCs of zero did not receive FSEOG awards.

RECOMMENDATION

We recommend that OSFAP instruct the University to establish and implement written policies and procedures for awarding FSEOG that comply with Federal regulations.

Auditee Comments

The University agreed, stating that it has changed its award policy to ensure that students with zero EFCs are awarded FSEOG funds before any other students with higher EFCs.

FWS Students Had No Job Titles/Job Descriptions and Students Reported Work Hours That Conflicted With Scheduled Class Hours

The University's FWS students had no job titles or job descriptions. Federal regulations restrict the type of work students can perform. Without a job title or job description it is impossible to determine if the work students are performing is allowable under FWS regulations. Also, we found FWS students' time sheets showed conflicts between reported work hours and scheduled class hours. The possible causes are the lack of written policies and procedures and inadequate separation of duties. OSFAP should instruct the University to: (1) provide support to show that the jobs were allowable; (2) establish and implement written policies and procedures that document job titles and job descriptions for FWS employees and prohibit students from reporting work hours that conflict with scheduled class hours, and (3) improve separation of duties.

Regulations Prescribe the Type of Work FWS Students Can Perform

Federal regulations restrict the type of work students can perform. The type of work allowed under the FWS program is discussed in 34 CFR 675.20, 675.21, 675.22, and 675.23. Without a job title or job description, it is impossible to determine if the work students are performing is allowable under FWS regulations.

FWS Students Do Not Have Job Titles or Job Descriptions

FWS students at the University do not have job titles or job descriptions in their files. We reviewed the FWS files for 8 of the 29 students who received FWS funds during the 1997-98 award year and found none of the students had job titles or job descriptions. We asked University officials about job titles and job descriptions and were informed there were none.

Conflicts Found Between Reported Work Hours and Scheduled Class Hours

We found FWS time sheets showed conflicts between students' reported work hours and scheduled class hours. We judgmentally selected 5 of the 8 FWS students whose files we reviewed and compared the students' reported work hours to scheduled class hours. All 5 students reported work hours on their time sheets that conflicted with their scheduled class hours. FWS funds are intended to help students meet the cost of attending postsecondary education institutions. Students working during scheduled class hours appears to be contrary to the purpose of the FWS program contained in 34 CFR 675.1(a).

Lack of Written Policies and Procedures and Separation of Duties

The University has no written policies or procedures that prohibit students from working during scheduled class hours or controls to ensure that students' work schedules and class schedules do not conflict. Also, the Director of Financial Aid performs most of the duties related to administering the FWS

program, sometimes with little first hand knowledge of existing circumstances. For example, we found the Director of Financial Aid signed off on students' time sheets even when she was not the supervisor.

RECOMMENDATIONS

We recommend that OSFAP instruct the University to:

1. Provide support to show the jobs were allowable or refund \$40,582 to ED;
2. Establish and implement written policies and procedures that document job titles and job descriptions for FWS employees and prohibit students from reporting or scheduling work hours that conflict with scheduled class hours; and
3. Improve separation of duties.

Auditee Comments

The University provided newly prepared job descriptions for each FWS position, noting they all qualified under the regulations. Therefore, it disagreed that all student hours should be refunded. The University agreed that conflicts existed for two students, provided an explanation for the conflicts, and agreed to reimburse \$407 to FWS. In addition, the University said all supervisors have been instructed to more closely monitor students' hours and use of the time clock.

OIG Response

We agree the new job descriptions are for jobs which qualify under the FWS regulations. However, the University did not provide information which associated students who received FWS during the audit period with the specific jobs covered by the new job descriptions. Therefore, FWS wages of \$40,582 still are unsupported.

The University's Refund Policy Did Not Disclose Administrative Fees

When students dropped out of school, the University often excluded an administrative fee when making the refund calculation. The University published a refund policy, but did not disclose the administrative fee. Federal regulations require an institution to provide a clear and conspicuous statement containing its refund policy. The University should revise its published refund policy to notify students that it will exclude an administrative fee when calculating refunds.

Federal Regulations Require Institutions to Inform Students of Refund Policy

According to 34 CFR 668.22 (a)(2), an institution must provide a clear and conspicuous written statement containing its refund policy to prospective and current students. Also, 34 CFR 668.44(a)(1)(i) and (a)(1)(v) state that information the institution must publish and make readily available to prospective and current students includes, but is not limited to, tuition and fees.

The University Charged an Undisclosed Administrative Fee to Students That Withdrew

For six students in our sample who dropped out of school, the University excluded an administrative fee when calculating their refunds. Because the University did not disclose the fee, the six students were not aware that their refunds were reduced by the amount of the fee.

RECOMMENDATION

We recommend that OSFAP instruct the University to revise its published refund policy to notify students that their refunds will be reduced by the amount of the administrative fee.

Auditee Comments

The University stated it has added a fee disclosure to the next edition of the University catalog effective for the 1999/2000 academic year and will forego this fee until the catalog is issued.

Background

The University, which is located in Chicago, Illinois, was established as a non-profit corporation in 1979. The University is licensed by the State of Illinois Board of Higher Education and accredited by the North Central Association of Colleges and Schools. During the award year July 1, 1997 through June 30, 1998, it participated in the FWS, FSEOG, and Pell Title IV, HEA programs. The University reported to ED that it disbursed funds totaling \$990,628 for the 1997-98 award year, consisting of \$40,582 of FWS, \$38,092 of FSEOG, and \$911,954 of Pell. Title IV of the HEA, as amended, authorized these three programs. The regulations contained in Title 34 of the CFR, Parts 675, 676, and 690, respectively, implemented the three programs. In addition, these programs were subject to the provisions contained in both the Institutional Eligibility regulations [34 CFR 600] and the Student Assistance General Provisions regulations [34 CFR 668]. All regulatory citations in the report are to the codification in effect as of July 1, 1997.

Purpose, Objectives, Scope, and Methodology

The purpose of our audit was to determine whether the University administered the Student Financial Assistance programs according to laws and regulations authorized by Title IV of the HEA, as amended. The overall objectives of our audit included examining: (1) management controls; (2) institutional and program eligibility; (3) cash management and accounting; and (4) selected administrative and compliance requirements including financial responsibility, student eligibility, award calculations and disbursements, refunds, and overpayments. To achieve the purpose and objectives, we reviewed: written operating policies and procedures, 100 randomly selected student files from a total of 538 files, the most recent Student Financial Assistance audit report and related working papers, the most recent Chicago case management team (formerly known as the Institutional Review Branch) file, State licensing and accrediting agency documents, school catalog, bank records, ED's eligibility files and other documents, and accounting and administrative records. We also interviewed University officials, ED regional personnel, and the University's independent public accountants. Our initial audit period covered the year ended June 30, 1998. Based on our work, we also reviewed documents before and after our audit period.

We conducted the on-site field work at the University's campus and at the independent public accountant's office from November 30, 1998 through January 15, 1999. We conducted our audit in accordance with government auditing standards appropriate to the scope described above.

Statement on Management Controls

As part of our audit, we made an assessment of the University's management control structure, policies, procedures, and practices applicable to the Title IV, HEA programs. The purpose of our assessment was to determine the level of control risk; that is, the risk that material errors, irregularities, or illegal acts may occur. The control risk assessment was performed to assist us in determining the nature, extent, and timing of substantive tests needed to accomplish our audit purpose and objectives.

To make the assessment, we identified and classified the significant internal administrative controls into five categories: institutional eligibility; program eligibility; student eligibility; cash management; and file maintenance. Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, we identified weaknesses related to credit balances, overpayments, refund calculations, FSEOG awards, and FWS that we discuss fully in the Audit Results section of the report.

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